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Message Text

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16
ACTION XMB-04

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 L-03 EUR-12 /070 W
---------- 029545
R 260440Z JAN 76
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 3812
INFO AMCONSUL LAHORE

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E.O. 11652: N/A
TAGS: BPRO, PK
SUBJECT: FCIA CREDIT INSURANCE REQUEST TO COVER SALE OF 60 LOCOMOTIVES TO PAKISTAN WESTERN RAILWAYS

STATE 005386, 75 LAHORE 1298, 75 LAHORE 0086,

BEGIN SUMMARY: EMBASSY HAS NO OBJECTION TO PROPOSED FCIA INSURANCE ON SALE OF 60 LOCOMOTIVES TO PAKISTAN RAILWAYS. WE SHARE LAHORE'S PUZZLEMENT OVER WHAT LOCOMOTIVES THESE MIGHT BE SINCE GM HAS ALREADY SOLD AND LARGELY COMPLETED DELIVERY OF ITS ORDER FOR 68 LOCOMOTIVES AND HAS SIGNED NO CONTRACT FOR FURTHER SALES. END SUMMARY

1. WE INCLUDE BELOW SOME USEFUL COMMENTS FROM CONGEN LAHORE.

2. BEGIN QUOTE FROM LAHORE: PAKISTAN RAILWAYS CHAIRMAN M. A. AZIZ EXPLAINED PR'S LOCOMOTIVE ACQUISITION PLANS TO CONGEN OFFICERS DURING CALL JANUARY 16. AZIZ INDICATED PR HAD NOT COMMITTED ITSELF TO ANY SPECIFIC FUTURE PURCHASES FROM GM, NEITHER FOR 60 LOCOMOTIVES MENTIONED IN SECOND REFTEL NOR ANY OTHER NUMBER. INSTEAD, HE OUTLINED PR'S PLANS STRICTLY IN TERMS OF IN-COUNTRY ASSEMBLY-SIMILAR TO THOSE REPORTED IN SECOND AND THIRD REFTELS.
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3. AT OUTSET, AZIZ REITERATED HE CONSIDERED GM LOCOMOTIVES "BEST IN THE WORLD" AND, PERSONALLY, HOPED GMC WOULD GET ALL OF PR'S FORESEEABLE BUSINESS, WHICH SHOULD RUN FROM 30 TO 50 UNITS OF 1500 HP ANNUALLY FOR NEXT FEW YEARS. UNTIL TOTAL OF ABOUT 250 UNITS REACHED. SINCE MAJOR PURCHASES BY ANY GOVERNMENT BODY ARE SUSCEPTIBLE TO NON-TECHNICAL FACTORS, SUCH AS AVAILABILITY OF FOREIGN CREDIT AND POLITICAL CONSIDERATIONS, HE HOPED TO DEVELOP LONG-TERM ARRANGEMENT WITH GMC TO "INSULATE" DEAL FROM SUCH FACTORS.

5. TO ACHIEVE THIS HE SAW TWO MAIN REQUIREMENTS:
A. ASSEMBLY IN PAKISTAN. AZIZ SAID HE HAD ADVISED GMC OF PR'S INTEREST ONLY IN LOCAL ASSEMBLY, AND GMC WAS EXPECTED TO SEND OUT TECHNICAL REP SHORTLY TO DISCUSS SPECIFICS. PR PLANS TO ASSEMBLE IN NEWLY CONSTRUCTED FACILITY AT RAILWAYS WORKSHOPS IN RAWALPINDI, AND TO USE TO MAXIMUM EXTENT COMPONENTS FABRICATED IN PAKISTAN, ESPECIALLY AT HEAVY MACHINERY COMPLEX, TAXILA. (COMMENT: IN ABSENCE OF ANY USDOC REPLY TO SECOND AND THIRD REFTELS WE ARE UNAWARE WHETHER GMC IS SERIOUSLY INTERESTED IN LOCAL ASSEMBLY IN PAKISTAN VICE SUPPLY OF COMPLETE LOCOMOTIVES.)
B. LONG-TERM PRICE ARRANGEMENT. PR WISHES TO HAVE LONG-TERM FIXED PRICE CONTRACT (WITH "ESCALATOR CLAUSE" BASED ON APPROPRIATE US GOVERNMENT INDICES TO COMPENSATE FOR CHANGES IN COSTS OF LABOR AND MATERIALS) FOR LOCOMOTIVE ASSEMBLY. AZIZ APPROVINGLY RECALLED THAT PR HAD HAD SUCH ARRANGEMENT WITH GERMAN RAILRAOD WAGON MANUFACTURER WHICH HAD LASTER 12 YEARS.

5. AZIZ ALSO SUGGESTED THAT ASSEMBLY OF GMC LOCOMOTIVES IN PAKISTAN MIGHT ENABLE PAKISTAN TO SUPPLY RCD AND EAST AFRICAN MARKETS - PARTICULARLY IRAN - A DIMENSION UPON WHICH WE UNABLE COMMENT.

6. COMMENT: IN VIEW OF AZIZ' DENIAL OF ANY PURCHASE ARRANGEMENT WITH GMC (BEYOND 68 LOCOMOTIVES ALREADY DELIVERED), WE ARE PUZZLED BY FIRST REFTEL REPORT THAT GMC HAS APPLIED FOR EXIMBANK INSURANCE TO COVER SALE OF 60. PERHAPS GMC HOPED TO SECURE INSURANCE PROTECTION AS BARGAINING POINT WITH PR. OR PERHAPS IT INTENDED TO COVER SALE OF MAJOR COMPONENTS FOR 60 UNITS FOR ASSEMBLY IN PAKISTAN. IN EITHER CASE, WE HOPE EXIMBANK WILL FAVORABLY CONSIDER CREDIT INSURANCE TO PROMOTE ANOTHER, AND
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MUCH LARGER, AMERICAN LOCOMOTIVE DEAL WITH PAKISTAN. END QUOTE FROM LAHORE.

7. REFTEL ALSO ASKED ABOUT PAKISTAN GOVERNMENT QUIDELINES ON MEDIUM-TERM DEBT. AS DEPARTMENT IS AWARE, PAKISTAN HAS BEEN TRYING TO OBTAIN THE MOST CONCESSIONAL POSSIBLE TERMS FOR ITS EXTERNAL BORROWING,BECAUSE OF ITS TIGHT DEBT SERVICE RATIO. PAKISTAN'S MOST RECENT STANDBY AGREEMENT WITH THE IMF, WHICH WAS

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IN EFFECT FOR A YEAR BEGINNING IN OCTOBER, 1974, INCLUDED AN UNDERTAKING BY PAKISTAN THAT FOREIGN DEBT WITH THE MATURITY OF 5 TO 15 YEARS WOULD BE LIMITED TO THAT NEEDED FOR FERTILIZER PLANTS PLUS UP TO $240 MILLION FOR OTHER PURPOSES. ACTUAL BORROWINGS WERE WELL BELOW THIS LEVEL. PAKISTAN HAS NOT SIGNED A NEW STANDBY AGREEMENT WITH THE IMF, SO THAT TECHNICALLY THERE ARE NO CEILINGS IN EFFECT NOW. HOWEVER THEY HAVE ASKED THAT AN IMF MISSION BE SENT TO PREPARE FOR A NEW AGREEMENT. IMF HAS NOT YET ESTABLISHED COMPOSITION OR DATE OF MISSION. BASED ON PAKISTAN'S RECENT PERFORMANCE, WE BELIEVE THAT THE GOP WILL SEE TO IT THAN ANY ADDITIONAL BORROWING TO COVER LOCOMOTIVES WILL NOT RAISE PAKISTAN'S MEDIUM-TERM DEBT EXPOSURE BEYOND LIMITS THAT THE GOVERNMENT AND IMF COULD AGREE WERE REASONABLY SAFE.

8. LIKE CONGEN, EMBASSY VERY MUCH HOPES GM CAN MAKE ADDITIONAL SALES AND HAVE NO OBJECTION TO PROPOSED FCIA INSURANCE FOR THIS PURPOSE.
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